

CITY OF MINBURN
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2005

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Management's Discussion and Analysis	6-13
Basic Financial Statements	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets-Cash Basis	A 16
Government Fund Financial Statements:	
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	B 17
Proprietary Fund Financial Statements:	
Statements of Cash Receipts, Disbursements and Changes in Cash Balances	C 19
Notes to Financial Statements	20-24
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances-Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	26-27
Notes to Required Supplementary Information-Budgetary Reporting	28
Other Supplementary Information:	<u>Schedule</u>
Schedule of Indebtedness	1 30
Bond and Note Maturities	2 31
Schedule of Receipts by Source and Disbursements by Function- All Governmental Funds	3 32
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards.	34-35
Schedule of Findings	36-39

CITY OF MINBURN

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2005)		
Jim Connick	Mayor	Dec 2005
Jon Brown	Mayor Pro tem	Dec 2005
Donna Donovan	Council Member	Dec 2005
GayLynn Stajcar	Council Member	Dec 2005
Ronnie Allen	Council Member	Dec 2007
Brad Herman	Council Member	Dec 2007
(After January 2005)		
Jim Connick	Mayor	Dec 2005
Jon Brown	Mayor Pro tem	Dec 2005
Donna Donovan	Council Member	Dec 2005
GayLynn Stajcar	Council Member	Dec 2005
Ronnie Allen	Council Member	Dec 2007
Brad Herman	Council Member	Dec 2007
Rich Busher	Clerk/Treasurer	Indefinite
Greg Andrews	Attorney	Indefinite

CITY OF MINBURN

Dennis P. Donovan, P.C.
Certified Public Accountant
1100 Gilbert
Charles City, Iowa

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Minburn, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Minburn's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which are a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Minburn as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in
Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated August 26, 2005 on my consideration of the City of Minburn's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Minburn's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

August 26, 2005

Dennis P. Donovan, P.C.
Certified Public Accountant

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Minburn provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 8.2%, or approximately \$15,863, from fiscal 2004 to fiscal 2005. Property tax increased approximately \$16,711 and local option sales tax decreased \$28,816.
- Disbursements decreased 10.9%, or approximately \$21,520, in fiscal 2005 from fiscal 2004. Public safety, Health and social service, and General government decreased approximately \$9,713, \$3,518, and \$8,917, respectively.
- The City's total cash basis net assets increased 13.3%, or approximately \$29,148, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities increased approximately \$2,481 and the assets of the business type activities increased by approximately \$26,667.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, and debt service. Property tax finances most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system, and garbage pick-up. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund, and 4) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements, and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for these funds. The water, sewer and garbage funds are

considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements, and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased slightly from a year ago, increasing from \$161,512 to \$163,993. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2005	2004
Receipts and transfers		
Program receipts:		
Charges for services	\$ 19,888	18,306
Operating grants, contributions and restricted interest	37,230	37,561
General receipts		
Property tax	114,401	97,690
Other city tax	96	
Local Option Sales Tax		28,816
Grants and contributions not restricted to specific purpose		
Unrestricted investment earnings	887	2,915
Other general receipts	6,134	9,211
Total receipts and transfers	<u>178,636</u>	<u>194,499</u>
Disbursements		
Public Safety	20,838	30,551
Public Works	57,127	57,904
Health and social services	1,221	4,739
Culture and recreation	32,718	30,513
Community and economic development	46	154
General government	38,600	47,517
Debt Service	25,605	26,297
Total disbursements	<u>176,155</u>	<u>197,675</u>
Increase in cash basis net assets	2,481	(3,176)
Cash basis net assets beginning of year	<u>161,512</u>	<u>164,688</u>
Cash basis net assets end of year	<u>\$ 163,993</u>	<u>161,512</u>

The City's total receipts for governmental activities decreased by 8.2%, or \$15,863. The total cost of all programs and services decreased by approximately \$21,521, or 10.9%, with no new programs added this year. The significant decrease in receipts was primarily the result of the loss of local option sales tax.

The City increased property tax rates for 2005 by an average of 17.1 percent. This increase raised the City's property tax receipts by approximately \$16,711 in 2005.

The cost of all governmental activities this year was \$176,155.00 compared to \$197,675.00 last year. This savings is a result of less being spent for Public Safety, Health and social services and General government by the amounts of \$9,713, \$3,518, and \$8,917, respectively

Changes in Cash Basis Net Assets of Business Type Activities		
Receipts:	Year ended June 30,	
	2005	2004
Program receipts:		
Charges for Services		
Water	\$ 63,742	50,929
Sewer	26,767	21,177
Garbage	27,072	25,859
General Receipts		
Revenue Bond Receipts	22,874	22,968
Revenue Bond Penalties	563	529
Total	141,018	121,462
Disbursements:		
Water	51,039	51,828
Sewer	37,110	37,582
Garbage	26,202	25,394
Total Disbursements	114,351	114,803
Increase in cash balance	26,667	6,659
Cash basis net assets beginning of the year	58,380	51,721
Cash basis net assets end of year	\$ 85,047	58,380

Total business type activities receipts for the fiscal year were \$141,018 compared to \$121,462 last year. This increase was due primarily to the rate increase in the amount charged for water and sewer usage. The cash balance increased by approximately \$26,666.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Minburn completed the year, its governmental funds reported a combined fund balance of \$163,992, an increase of more than \$2,482 above last year's total of \$161,510. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$4,057 from the prior year to \$132,313. This slight increase was due to several changes in both Receipts and Disbursements. Receipts: Fire Protection decreased by \$6,440, Property Tax increased by \$ 8,622, Local Option Sales Tax decreased by 27,448, and the amount received for Police protection increased by \$6,461. Disbursements: Amount paid to the City of Dallas Center decreased by \$6,715, Steel building maintenance decreased by \$12,970, and the City Clerk Expenditures decreased by \$14,761.
- Road Use Tax Fund cash balance decreased by \$3,158 to \$14,971 during the fiscal year. This decrease was due to a significant increase in the amount paid for expenditures.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALAYSIS

- The Water Fund cash balance increased by \$12,703 to \$9,649, due primarily to a rate increase.
- The Sewer Fund cash balance increased by \$13,094 to \$73,876, due primarily to a rate increase
- The Garbage Fund cash balance increased by \$870 to \$1,522.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on March 25, 2005 and resulted in an increase in operating disbursements related to a cost overrun of approximately \$10,000 on various maintenance projects involving City Hall. The second amendment was approved on May 24, 2005 to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$363,000 in bonds and other long-term debt, compared to approximately \$394,000 last year, as shown below.

Outstanding Debt at Year-End		
	June 30,	
	2005	2004
General Obligation Bonds	\$ 194,000	210,000
Revenue Bonds	169,000	184,000
Total	\$ 363,000	394,000

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$194,000 is significantly below its constitutional debt limit of \$338,249.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Minburn's elected and appointed officials and citizens were faced with a number of difficult situations when setting the fiscal 2006 budget. After following the 2005 year with a loss of more than \$28,000 in Local Option Sales Tax that was used to help cover the cost of paying for police protection for the City of Minburn, the officials knew their job would be difficult. However, part of the loss was mitigated by entering into a 28E agreement with the Adel-DeSoto-Minburn Community School district declaring that the school shall give to Minburn the actual cost of contracted law enforcement, not to exceed \$10,000.

The amount available for appropriation in the operating budget increased by \$3,000 compared to the final 2005 budget. This increase came entirely from an increase in the taxes levied on property. The city will use this slight increase in receipts and the savings derived from cutting the cost of maintaining the library, parks, and cemetery to cover the increased costs associated with health and safety, public works, and the business type enterprises that the city has no control over in some of the rising cost.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Marilyn Martin, 101 Main Street, Minburn, Iowa.

CITY OF MINBURN

Basic Financial Statements

City of Minburn
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2005

Exhibit A

Functions / Programs	Disbursements	Program Receipts		Net Disbursements, Receipts and Changes in Cash Basis Net Assets		
		Charge for Services	Operating Grants, Contributions, and Restricted Interest	Government Activities	Business Type Activities	Total
Governmental activities:						
Public Safety	\$ 20,838	6,610	-	(14,228)	-	(14,228)
Public Works	57,127	-	31,782	(25,345)	-	(25,345)
Health and social services	1,221	-	-	(1,221)	-	(1,221)
Culture and recreation	32,718	6,165	5,448	(21,105)	-	(21,105)
Community and economic development	46	-	-	(46)	-	(46)
General Government	38,600	7,113	-	(31,487)	-	(31,487)
Debt Service	25,605	-	-	(25,605)	-	(25,605)
Total governmental activities	176,155	19,888	37,230	(119,037)	-	(119,037)
Business type activities						-
Water	51,039	63,743			12,704	12,704
Sewer	37,110	50,203			13,093	13,093
Solid Waste	26,202	27,072			870	870
Total business type activities	114,351	141,018			26,667	26,667
Total	\$ 290,506	160,906	37,230	(119,037)	26,667	(92,370)
General Receipts						-
Property tax levied for:						-
General purposes				88,533		88,533
Debt Service				25,868		25,868
Other city tax				96		96
Unrestricted interest on investments				887		887
Miscellaneous				6,134		6,134
Total general receipts				121,518		121,518
Change in cash basis net assets				2,481	26,667	29,148
Cash basis net assets beginning of yeas				161,511	58,380	219,891
Cash basis net assets end of year				\$ 163,992	85,047	249,039
Cash Basis Net Assets						
Restricted						
Streets				\$ 14,971		14,971
Cemetary Perpetual Care				16,517		16,517
Debt Service				(4,280)		(4,280)
Unrestricted				136,784	85,047	221,831
Total cash basis net assets				\$ 163,992	85,047	249,039

See notes to financial statements

City of Minburn
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2005

Exhibit B

	General	Special Revenue Road Use Tax	Employee Benefits	Debt Service	Cemetery	Total
Receipts						
Property tax	\$ 67,985	-	20,548	25,868	-	114,401
Other City Tax	96	-	-	-	-	96
Licenses and Permits	652	-	-	-	-	652
Use of money and property	887	-	-	-	-	887
Intergovernmental	5,448	31,782	-	-	-	37,230
Charges for service	18,822	-	-	-	415	19,237
Miscellaneous	6,284	-	(150)	-	-	6,134
Total Receipts	100,174	31,782	20,398	25,868	415	178,637
Disbursements						
Operating:						
Public Safety	20,635	-	203	-	-	20,838
Public Works	12,513	34,940	9,673	-	-	57,126
Health and social services	1,221	-	-	-	-	1,221
Culture and recreation	31,960	-	759	-	-	32,719
Community and economic development	46	-	-	-	-	46
General Government	29,742	-	8,858	-	-	38,600
Debt service	-	-	-	25,605	-	25,605
Total disbursements	96,117	34,940	19,493	25,605	-	176,155
Excess of receipts over disbursements	4,057	(3,158)	905	263	415	2,482
Net change in cash balances	4,057	(3,158)	905	263	415	2,482
Cash balance beginning of year	128,256	18,129	3,566	(4,543)	16,102	161,510
Cash balance end of year	\$ 132,313	14,971	4,471	(4,280)	16,517	163,992

Cash Basis Fund Balance

Reserved:						
Debt Service	\$ -	-	-	(4,280)	-	(4,280)
Unreserved:						
General Fund	132,313	-	-	-	-	132,313
Special revenue funds	-	14,971	4,471	-	-	19,442
Capital project fund	-	-	-	-	-	-
Permanent Fund	-	-	-	-	16,517	16,517
Total cash basis fund balances	\$ 132,313	14,971	4,471	(4,280)	16,517	163,992

See notes to financial statements

CITY OF MINBURN

City of Minburn

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

Exhibit C

As of and for the year ended June 30, 2005

	Enterprise Funds			
	Water	Sewer	Garbage	Total
Operating receipts:				
Charges for service	\$ 63,742	50,203	27,072	141,017
Total operating receipts	63,742	50,203	27,072	141,017
Operating disbursements				
Business type activities	51,039	15,135	26,202	92,376
Total operating disbursements	51,039	15,135	26,202	92,376
Excess (deficiency) of operating receipts over (under) operating disbursements	12,703	35,068	870	48,641
Non-operating receipts (disbursements)				
Debt service	-	21,974	-	21,974
Total non-operating receipts (disbursements)	-	21,974	-	21,974
Excess (deficiency) of receipts over (under) disbursements	12,703	13,094	870	26,667
Operating transfers Net	-	-	-	-
Net change in cash balances	12,703	13,094	870	26,667
Cash balances beginning of year	(3,054)	60,782	652	58,380
Cash balance end of year	\$ 9,649	73,876	1,522	85,047
Cash Balance Fund Balances				
Reserve for debt service	\$ -	-	-	-
Unreserved	9,649	73,876	1,522	85,047
Total cash basis fund balance	\$ 9,649	73,876	1,522	85,047

See notes to financial statements

CITY OF MINBURN

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The City of Minburn is a political subdivision of the State of Iowa located in Dallas County. It was first incorporated in 1892 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Minburn has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Dallas County Assessor's Conference Board, Dallas County Emergency Management Commission, Dallas County Landfill Commission and Dallas County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements- The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to account for employee benefits.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Garbage Fund accounts for the operation and maintenance of the City's solid waste removal.

C. Measurement Focus and Basis of Accounting

The City of Minburn maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the Health and Social Services function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by the statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	General Obligation Bond		General Obligation Bond		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 12,000	4,638	7,000	3,178	16,000	6,321	35,000	14,136
2007	12,000	4,189	7,000	2,860	17,000	5,722	36,000	12,771
2008	13,000	3,740	7,000	2,542	17,000	5,086	37,000	11,369
2009	13,000	3,254	7,000	2,225	18,000	4,451	38,000	9,929
2010	14,000	2,768	8,000	1,907	19,000	3,777	41,000	8,452
2011	14,000	2,244	8,000	1,544	19,000	3,067	41,000	6,854
2012	15,000	1,720	8,000	1,180	20,000	2,356	43,000	5,257
2013	15,000	1,159	9,000	817	21,000	1,608	45,000	3,585
2014	16,000	598	9,000	409	22,000	823	47,000	1,830
Total	\$ 124,000	24,310	70,000	16,662	169,000	33,211	363,000	74,183

The resolutions providing for the issuance of the revenue bond includes the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate sewer revenue bond sinking accounts within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) Additional transfers to a Sewer Revenue Bond Reserve Fund within the Enterprise Funds shall be made until specific minimum balances have been accumulated. This account is restricted for the purpose of paying interest and principal when the amount in the bond sinking fund is insufficient to pay the amount needed to service the debt.

As of June 30, 2005 the city was not using a sinking fund or a reserve fund.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are

established by the state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$3,739, \$3,770, and \$3,705, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 931
Sick Leave	<u>7,201</u>
Total	<u>\$8,132</u>

This liability has been computed based on rates of pay in effect at June 30, 2005.

(6) Related Party Transactions

The City had business transactions between the City and City officials totaling \$2,000 during the year ended June 30, 2005.

(7) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Debt Service Fund

The Debt Service Fund had a deficit balance of \$4,280 at June 30, 2005. The deficit will be eliminated through the budget.

Required Supplementary Information

City of Minburn
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual
Receipts		
Property Tax	\$ 111,001	-
Other tax	3,496	-
License and Permits	652	-
Use of Money and Property	887	-
Intergovernmental	37,230	-
Charges for Services	19,237	141,018
Miscellaneous	6,134	-
Total receipts	<u>178,637</u>	<u>141,018</u>
Disbursements:		
Public Safety	20,838	-
Public Works	57,127	-
Health and Social Services	1,221	-
Culture and Recreation	32,718	-
Community and Environmental Development	46	-
General Government	38,600	-
Debt Service	25,605	-
Business Type Activities	-	114,351
Total Disbursements	<u>176,155</u>	<u>114,351</u>
Excess of Receipts over disbursements	2,482	26,667
Other Financing Sources, Net	<u>-</u>	<u>-</u>
Excess of Receipts and other Financing Sources Over Disbursements and Other Financing Uses	2,482	26,667
Balance Beginning of Year	<u>161,510</u>	<u>58,380</u>
Balance End of Year	<u><u>\$ 163,992</u></u>	<u><u>85,047</u></u>

See accompanying independent auditor's report.

continued

Net	Budgeted Amounts		Final to
	Original	Final	Net Variance
111,001	109,606	109,606	1,395
3,496	3,592	3,592	(96)
652	438	609	43
887	4,200	1,000	(113)
37,230	48,712	57,594	(20,364)
160,255	121,454	139,444	20,811
6,134	3,850	9,153	(3,019)
319,655	291,852	320,998	(1,343)
20,838	30,945	26,575	5,737
57,127	52,375	62,401	5,274
1,221	1,000	1,000	(221)
32,718	24,520	36,272	3,554
46	-	50	4
38,600	35,953	39,410	810
25,605	25,605	25,605	-
114,351	121,454	130,115	15,764
290,506	291,852	321,428	30,922
-			
29,149	-	(430)	(32,265)
-	-	10,000	10,000
29,149	-	9,570	19,579
219,890	235,576	235,576	(15,686)
249,039	235,576	245,146	3,893

CITY OF MINBURN

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities, and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$29, 576. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the health and social services function.

Other Supplementary Information

City of Minburn
Schedule of Indebtedness
Year ended June 30, 2005

Obligation	Date of Issue	Interest Rate	Amount Originally Issued	Balance Beginning of Year	Redemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Bonds								
Sewer Improvement	12/01/94	4.54%	\$ 126,000	76,000	6,000	70,000	3,450	265
Sewer Improvement	06/21/94	3.74%	220,000	135,000	11,000	124,000	5,049	386
Total				<u>\$ 211,000</u>	<u>17,000</u>	<u>194,000</u>	<u>8,499</u>	<u>651</u>
Revenue Bonds								
Sewer	06/21/94	3.74%	\$ 311,000	<u>184,000</u>	<u>15,000</u>	<u>169,000</u>	<u>6,882</u>	<u>527</u>

See accompanying independent auditor's report.

City of Minburn
Bond Maturities
June 30, 2005

General Obligation Bonds					Revenue Bonds	
Year Ending June 30,	Sewer Improvement Series 1994C		Sewer Improvement Series 1994B		Sewer Series 1994A	
	Issued 12/1/94		Issued 6/21/94		Issued 6/21/94	
	Interest		Interest		Interest	
	Rate	Amount	Rate	Amount	Rate	Amount
2006	4.54%	\$ 12,000	3.74%	7,000	3.74%	16,000
2007		12,000		7,000		17,000
2008		13,000		7,000		17,000
2009		13,000		7,000		18,000
2010		14,000		8,000		19,000
2011		14,000		8,000		19,000
2012		15,000		8,000		20,000
2013		15,000		9,000		21,000
2014		16,000		9,000		22,000
Total		<u>\$ 124,000</u>		<u>70,000</u>		<u>169,000</u>

See accompanying independent auditor's report

City of Minburn
 Schedule of Receipts By Source and Disbursement By Function
 All Government Funds
 For Last Two Years

	2005	2004
Property Tax	\$ 114,401	97,690
Other Tax	96	27,448
Licenses and Permits	652	1,196
Use of Money and Property	887	2,915
Intergovernmental	37,230	37,561
Charges for Services	19,237	17,110
Miscellaneous	6,134	10,579
Total Revenues	<u>\$ 178,637</u>	<u>196,503</u>
Public Safety	\$ 20,838	30,551
Public Works	57,127	57,904
Health and Social Services	1,221	4,739
Culture and Recreation	32,718	30,513
Community and Economic Development	46	154
General Government	38,600	47,517
Debt Service	25,605	26,297
Total Expenditures	<u>\$ 176,155</u>	<u>197,675</u>

See accompanying independent auditor's report

CITY OF MINBURN

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Minburn, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's financial statements listed in the table of contents and have issued my report thereon dated August 26, 2005. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with another comprehensive basis for accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Minburn's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Minburn's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions described above, I believe item A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Minburn's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Minburn and other parties to whom the City of Minburn may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Minburn during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

August 26, 2005

Dennis P Donovan PC

Certified Public Accountant

CITY OF MINBURN

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- A. Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits, and the posting of the cash receipts to the cash receipts journal are all done by the same person.
- B. Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.
- C. Response – We will consider this.
- D. Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Part II: Other Findings Related to Statutory Reporting:

- 1. Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- 2. Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the Health and Social Services functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

3. Questionable Disbursements – I noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented.
4. Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
5. Business Transactions - Business Transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Donna Donovan, Council Member, Sister-in-law of Auditor, Dennis Donovan	Audit Services	\$2000

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with the council person does not appear to represent a conflict of interest since it was entered into through competitive bidding.

6. Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
7. Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
8. Deposits and Investments – I noted no written investment policy in accordance with Chapter 12C of the code of Iowa.

Recommendation – The City should approve and adopt a written investment policy.

Response – We will approve and adopt a written investment policy.

Conclusion – Response accepted.

9. Revenue Bonds – The City has complied with the revenue bond resolution. I noted that no sinking fund is being used to service that bond.

Recommendation – The City should establish a sinking fund for the transfer of funds from the sewer revenue as required by the bond resolution.

Response – The fund will be established and approved. The monthly transfers will be made as required.

Conclusion – Response accepted.

10. Revenue Bonds – I also noted that no reserve fund is being used to service the debt when the amount in the sinking fund is insufficient to pay the amount due. As of June 30, 2005 the balance in the reserve fund should have been \$16,900.

Recommendation – The City should establish a reserve fund as required by the bond resolution.

Response – We will approve and establish a reserve fund.

Conclusion – Response accepted.

11. Financial Condition – The Debt Service Fund had a deficit balance at June 30, 2005 of \$4,280

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – We will attempt to eliminate this deficit through the budget.

Conclusion – Response accepted.

12. Hours Worked – Employees may not take vacation prior to the accumulation of vacation time, unless otherwise approved by the Mayor. I noted that city employees have taken vacation time that had not been earned.

Recommendation – The City needs to monitor the payroll records to insure that employees don't take vacation time that has not been earned.

Response – The Clerk has prepared a worksheet that identifies the vacation time earned and used by each employee.

Conclusion – Response accepted.

13. Time cards – Employees are required to check in and out using the time clock that is located in the clerk's office. I noted that on several occasions, Jenny Wagner did not use the time clock to keep track of the time she arrived or left work. Some of these times were completed by Jenny manually. It was also noted that Jenny used vacation and sick time that had not been earned to compute her payroll.

Response – Jenny's position has been terminated.

